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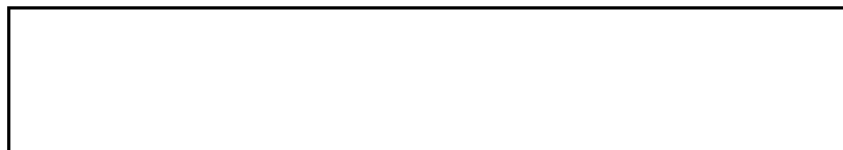
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INTELLIGENCE MEMORANDUM

THE SITUATION IN THE REPUBLIC OF KOREA

DIRECTORATE OF INTELLIGENCE

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
12 October 1966

INTELLIGENCE MEMORANDUM

The Situation in the Republic of Korea

SUMMARY

The present government of South Korea is patterned on the American system, with a separation of executive, legislative, and judicial powers. President Pak Chong-hui, however, holds key powers which virtually allow him to dictate government policies in line with the Korean tradition of government by a single individual or small group.

Under Pak's leadership Korea has achieved a considerable degree of political stability. The reduction of inflation to manageable proportions and the normalization of relations with Japan have contributed to general improvement of the economy. Better economic prospects, together with Korea's enhanced international role, are reflected in a growing national pride and a more confident attitude on the part of government leaders, businessmen, and the public at large.

NOTE: This is one of a series of memoranda produced by CIA on those countries to be visited by President Johnson. It was prepared by the Office of Current Intelligence and coordinated with the Office of National Estimates and the Office of Research and Reports.

The Koreans, however, still face many major problems. Despite economic gains the country remains heavily dependent on outside assistance. Factionalism and pervasive corruption are a continuing threat to long-term political stability and economic development.

Korea's achievements are promoting a growing independence and assertiveness in policy matters and are making the leadership less amenable to US guidance. The problems arising from the partition of Korea are becoming increasingly important issues both domestically and internationally.

Pak's Policies

1. Although not a widely popular figure, Pak has achieved growing respect and acceptance as a national leader who is likely to succeed himself in next year's elections. On two controversial issues --relations with Japan and sending troops to Vietnam--he won backing from the majority of his own party in the National Assembly and acceptance if not full support from the public. Most significantly, he retained the support of the military upon which his position ultimately depends. In Pak's view, the settlement with Japan and the commitment of troops to Vietnam represent vital steps toward assuring the economic viability of the nation and strengthening its international security position. Under the terms of settlement, Japan agreed to give Seoul \$800 million in grants and loans.

2. Korea entered the Vietnam conflict from mixed motives of sentiment and self-interest. The sentiment was compounded of feelings of loyalty to the US and a deep-seated sense of obligation to repay the free world for coming to Korea's aid in 1950. The self-interest stemmed in large measure from a general conviction that Korea must profit economically in Vietnam as Japan did in the Korean war. These two motives seem to merge in the concept that sending troops to Vietnam is a demonstration of loyalty that should strengthen Korea's claims on the US for long-term military aid and protection.

3. Pak hopes that the development of a strong South Korea will ultimately lead to reunification on non-Communist terms. Seoul formally supports the UN formula for Korean unification based on the holding of free elections under UN supervision in both North and South Korea. Nevertheless, UN failure to bring about unification after 20 years is raising doubts in South Korea that the UN can or is willing to deal with the problem and a belief that new alternatives must be found.

Economic Gains

4. The buoyant effect of an expanding economy on public attitudes has benefited Pak politically and encouraged a substantial degree of political stability.

5. Over the past two years the gross national product has increased in real terms about eight percent annually. Exports rose to \$180 million in 1965 compared with only \$87 million in 1963 and are expected to reach about \$250 million this year. Korean construction firms have received contracts for work abroad, and Korean laborers and technicians are being recruited for work in Europe, South America, Canada, and Vietnam. Agriculture has expanded enough to justify government claims that the nation will be essentially self-sufficient in food in a few years.

6. Major difficulties that remain, however, include insufficient domestic investment capital to absorb available foreign development funds and exports that still lag behind import requirements for raw material and capital goods. The trade deficit decreased in 1965 but was still \$275 million, most of which was covered by US grants and loans and sales of goods and services to UN (US) Forces in Korea.

7. Urban poverty and unemployment still plague the regime. Planning and public housing are virtually nonexistent in the burgeoning cities, especially Seoul. Unemployment is large, between 5.7 percent and 7.7 percent of the labor force, and underemployment is larger. Inflation, although reduced to manageable proportions, is a real and continuing threat to the livelihood of most Koreans.

Pak's Opposition

8. Unable to develop a credible alternative to Pak's administration, his political opposition has become largely discredited, disorganized, and virtually leaderless. The more intransigent elements,

led by former president Yun Po-sun, have resigned from the Assembly, in a futile gesture of defiance and personal pique. Subsequently, the more reasonable of the opposition groups has been led by Pak's growing use of compromise and persuasion to cooperate with the regime on less controversial issues.

9. Pak has had less success in coping with the hostility of students and intellectuals, who are frustrated by a lack of what they regard as desirable job opportunities and who are repelled by the pervasiveness of corruption in high places and the regime's disregard for democratic practices. Nevertheless, Pak has managed to reduce student disturbances without arousing serious public hostility.

The Dangers

10. The greatest hazard to continued progress lies within Pak's government party, which holds 110 of the 175 seats in the National Assembly. Corruption and factionalism are endemic, and the effective opposition that would enforce discipline upon the members of the government and their party colleagues is missing. The political storm over a recent smuggling scandal involving the government, big business, and Japanese interests is symptomatic of the long-term political and economic difficulties faced by the regime.

11. The scandal grew out of the political infighting among Pak's supporters, with the chairman of the government party appearing to have surfaced the case in an attempt to bring down factional opponents close to Pak. The stake was control of the regime's sources of political funds. Although Pak moved quickly to bring his lieutenants back into line and restore political calm, the public saw the case as confirmation of its worst suspicions of collusion between highly placed Koreans and Japanese interests.

12. With elections in the offing, the struggle for political funds is becoming more intense and

such incidents are more likely to occur. Thus far, the squabbling of the opposition politicians has prevented them from making the most effective use of the material at hand to attack the government. Pak is well aware that this is not likely to remain the case as the elections draw near and he undoubtedly sees his Manila trip as an opportunity to strengthen his position at home. Seoul is already depicting the conference as a great personal triumph for Pak and crediting him personally with the initiative for bringing it about.

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